

**REPORT OF THE AUDIT OF THE
SIMPSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SIMPSON COUNTY FISCAL COURT

June 30, 2007

The Auditor of Public Accounts has completed the audit of the Simpson County Fiscal Court for fiscal year ended June 30, 2007.

We have issued unqualified opinions, based on our audit and the report of other auditors, on the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information.

In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Simpson County's major federal program: Community Development Block Grant - State's Program (CFDA #14.228).

Financial Condition:

The Fiscal Court had total net assets of \$5,064,257 as of June 30, 2007. The Fiscal Court had unrestricted net assets of \$1,204,961 in its governmental activities as of June 30, 2007, with total net assets of \$5,035,695. In its business-type activities, total net cash and cash equivalents were \$28,562 with total net assets of \$28,562. The Fiscal Court's discretely presented component unit had unrestricted net assets of \$207,326 as of June 30, 2007, with total net assets of \$435,965. The Fiscal Court had total debt principal as of June 30, 2007 of \$11,723,543 with \$599,975 due within the next year.

Report Comments:

- 2007-1 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2007-2 The Fiscal Court Failed To Adhere To The Uniform Relocation Assistance And Real Property Acquisition Policies Act Of 1970, As Amended
- 2007-3 The Fiscal Court Failed To Implement Working Internal Controls Over Relocation Assistance And Real Property Acquisition

Deposits:

The Fiscal Court's deposits as of June 30, 2007, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$82,288

The Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Jim Henderson, Simpson County Judge/Executive

Members of the Simpson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Simpson County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Simpson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Simpson County Tourism Commission, a discretely presented component unit, which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Simpson County Tourism Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

As described in Note 1, Simpson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Simpson County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jim Henderson, Simpson County Judge/Executive
Members of the Simpson County Fiscal Court

The Simpson County Fiscal Court has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison schedules are not a required part of the basic financial statements but are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison schedules. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Simpson County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 18, 2008 on our consideration of Simpson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, include herein, which discusses the following report comments:

- 2007-1 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2007-2 The Fiscal Court Failed To Adhere To The Uniform Relocation Assistance And Real Property Acquisition Policies Act Of 1970, As Amended
- 2007-3 The Fiscal Court Failed To Implement Working Internal Controls Over Relocation Assistance And Real Property Acquisition

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 18, 2008

SIMPSON COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

	County Judge/Executive
Jim Henderson	Magistrate
Kelly Banton	Magistrate
Larry Randolph	Magistrate
Charles McCutchen, Sr.	Magistrate
Kenneth Utley	Magistrate (July 1, 2006 through December 31, 2006)
Marty Chandler	Magistrate (January 1, 2007 through June 30, 2007)

Other Elected Officials:

Sid Broderson	County Attorney
Danny Booher	Jailer (July 1, 2006 through December 31, 2006)
Robert Huber	Jailer (January 1, 2007 through June 30, 2007)
Bobby C. Phillips, Jr.	County Clerk
Jan J. Murphree	Circuit Court Clerk
Gene Starks	Sheriff
Pam Womack	Property Valuation Administrator
Thomas Crafton	Coroner

Appointed Personnel:

Julie Freeman	County Treasurer
Nicole Wilson Law	Finance Officer
Mary Beth Farley	Jail Administrative Assistant/Bookkeeper

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SIMPSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

SIMPSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Simpson County Tourism Commission
ASSETS				
Current Assets:				
Cash And Cash Equivalents	\$ 1,222,113	\$ 28,562	\$ 1,250,675	\$ 178,206
Receivable				30,368
Total Current Assets	1,222,113	28,562	1,250,675	208,574
Noncurrent Assets:				
Capital Assets - Net Of Accumulated Depreciation:				
Land And Land Improvements	1,502,037		1,502,037	74,500
Buildings	11,754,541		11,754,541	134,275
Other Equipment	661,662		661,662	12,763
Vehicles And Equipment	368,939		368,939	7,101
Infrastructure	1,249,946		1,249,946	
Total Noncurrent Assets	15,537,125		15,537,125	228,639
Total Assets	16,759,238	28,562	16,787,800	437,213
LIABILITIES				
Current Liabilities:				
Financing Obligations Payable	122,910		122,910	
Payroll Taxes Payable				1,248
Bonds Payable	477,065		477,065	
Total Current Liabilities	599,975		599,975	1,248
Noncurrent Liabilities:				
Financing Obligations Payable	1,048,536		1,048,536	
Bonds Payable	10,075,032		10,075,032	
Total Noncurrent Liabilities	11,123,568		11,123,568	
Total Liabilities	11,723,543		11,723,543	1,248
NET ASSETS				
Invested In Capital Assets, Net Of Related Debt	3,813,582		3,813,582	228,639
Restricted For:				
Debt Service	17,152		17,152	
Unrestricted	1,204,961	28,562	1,233,523	207,326
Total Net Assets	\$ 5,035,695	\$ 28,562	\$ 5,064,257	\$ 435,965

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

SIMPSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,724,492	\$ 294,584	\$ 1,169,737	\$ 200,000
Protection To Persons And Property	2,994,119	1,371,096	357,708	99,922
General Health And Sanitation	341,320	6,604	19,910	
Social Services	24,569			410,000
Recreation And Culture	571,951			89,700
Transportation Facilities And Services	5,560			
Roads	541,004		280,305	709,306
Interest And Fees On Debt Service	571,406			
Capital Projects	293,057			234,360
Total Governmental Activities	8,067,478	1,672,284	1,827,660	1,743,288
Business-Type Activities:				
Jail Canteen	92,149	100,058		
Total Business-Type Activities	92,149	100,058		
Total Primary Government	\$ 8,159,627	\$ 1,772,342	\$ 1,827,660	\$ 1,743,288
Component Unit:				
Simpson County Tourism Commission	\$ 129,380	\$	\$	\$
Total Component Unit	\$ 129,380	\$	\$	\$

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Occupational License Tax
Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Earned

Total General Revenues

Change In Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SIMPSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Simpson County Tourism Commission
\$ (1,060,171)	\$	\$ (1,060,171)	\$
(1,165,393)		(1,165,393)	
(314,806)		(314,806)	
385,431		385,431	
(482,251)		(482,251)	
(5,560)		(5,560)	
448,607		448,607	
(571,406)		(571,406)	
(58,697)		(58,697)	
(2,824,246)		(2,824,246)	
	7,909	7,909	
	7,909	7,909	
(2,824,246)	7,909	(2,816,337)	
			(129,380)
			(129,380)
772,023		772,023	
199,183		199,183	
157,400		157,400	
1,878,924		1,878,924	
487,994		487,994	127,674
54,045		54,045	
127,866		127,866	34,973
21,575		21,575	1,366
3,699,010		3,699,010	164,013
874,764	7,909	882,673	34,633
4,160,931	20,653	4,181,584	401,332
\$ 5,035,695	\$ 28,562	\$ 5,064,257	\$ 435,965

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

SIMPSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	Non-Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 570,971	\$ 485,437	\$ 60,351	\$ 105,354	\$ 1,222,113
Total Assets	<u>\$ 570,971</u>	<u>\$ 485,437</u>	<u>\$ 60,351</u>	<u>\$ 105,354</u>	<u>\$ 1,222,113</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 6,810	\$ 2,605	\$ 1,282	\$ 3,195	\$ 13,892
Unreserved:					
General Fund	564,161				564,161
Special Revenue Funds		482,832	59,069	85,007	626,908
Debt Service Fund				17,152	17,152
Total Fund Balances	<u>\$ 570,971</u>	<u>\$ 485,437</u>	<u>\$ 60,351</u>	<u>\$ 105,354</u>	<u>\$ 1,222,113</u>

Reconciliation to Statement of Net Assets:

Total Fund Balances	\$ 1,222,113
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported In The Funds.	19,406,723
Accumulated Depreciation	(3,869,598)
Long-term Debt Is Not Due And Payable In The Current Period And,	
Therefore, Is Not Reported In The Funds.	
Financing Obligations	(1,171,446)
Bonds	<u>(10,552,097)</u>
Net Assets Of Governmental Activities	<u>\$ 5,035,695</u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

SIMPSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	Non-Major Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 3,300,860	\$	\$	\$ 164,349	\$ 3,465,209
In Lieu Tax Payments	30,313				30,313
Excess Fees	54,045				54,045
Licenses and Permits	177,422				177,422
Intergovernmental	1,506,123	1,177,618	1,422,063	705,537	4,811,341
Charges for Services	6,603		52,072	78,632	137,307
Miscellaneous	151,375		96,704	1,075	249,154
Interest	16,855	2,404	877	365	20,501
Total Revenues	<u>5,243,596</u>	<u>1,180,022</u>	<u>1,571,716</u>	<u>949,958</u>	<u>8,945,292</u>
EXPENDITURES					
General Government	1,807,342			40,000	1,847,342
Protection to Persons and Property	405,638		1,498,586	360,286	2,264,510
General Health and Sanitation	343,353				343,353
Social Services	424,569				424,569
Recreation and Culture	565,143				565,143
Transportation Facilities and Services		5,560			5,560
Roads		559,698		50,000	609,698
Debt Service	40,691	81,364	456,666	564,281	1,143,002
Capital Projects	230,220	291,267			521,487
Administration	786,264	87,484	357,581	103,190	1,334,519
Total Expenditures	<u>4,603,220</u>	<u>1,025,373</u>	<u>2,312,833</u>	<u>1,117,757</u>	<u>9,059,183</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>640,376</u>	<u>154,649</u>	<u>(741,117)</u>	<u>(167,799)</u>	<u>(113,891)</u>
Other Financing Sources (Uses)					
Transfers Out	(908,305)				(908,305)
Transfers In			790,305	118,000	908,305
Total Other Financing Sources (Uses)	<u>(908,305)</u>		<u>790,305</u>	<u>118,000</u>	
Net Change in Fund Balances	(267,929)	154,649	49,188	(49,799)	(113,891)
Fund Balances - Beginning	838,900	330,788	11,163	155,153	1,336,004
Fund Balances - Ending	<u>\$ 570,971</u>	<u>\$ 485,437</u>	<u>\$ 60,351</u>	<u>\$ 105,354</u>	<u>\$ 1,222,113</u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

SIMPSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Net Change In Fund Balances - Total Governmental Funds	\$ (113,891)
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Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

Governmental Funds Report Capital Outlays As Expenditures. However, In The
Statement Of Activities The Cost Of Those Assets Are Allocated Over Their
Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay	969,329
Depreciation Expense	(543,530)
Book Value Of Disposed Capital Assets	(8,740)

The Repayment Of Principal On Long-Term Debt Consumes The Current
Financial Resources Of Governmental Funds. These Transactions, However,
Have No Effect On Net Assets.

Financing Obligations Principal Payments	115,577
Bond Principal Payments	<u>456,019</u>

Change In Net Assets Of Governmental Activities	<u><u>\$ 874,764</u></u>
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The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

SIMPSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 28,562
Total Assets	<u>28,562</u>
Net Assets	
Unrestricted	28,562
Total Net Assets	<u><u>\$ 28,562</u></u>

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The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

SIMPSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 100,058
Total Operating Revenues	<u>100,058</u>
Operating Expenses	
Cost Of Sales	63,711
Sales Tax	3,279
Commissary Wages	578
Adult Education	750
Inmate Refunds	2,949
Educational and Recreational	18,604
Miscellaneous	<u>2,278</u>
Total Operating Expenses	<u>92,149</u>
Operating Income	<u>7,909</u>
Nonoperating Revenues (Expenses)	
Inmate Pay From State	12,135
Inmate Refunds On Accounts	<u>(12,135)</u>
Total Nonoperating Revenues (Expenses)	<u> </u>
Change In Net Assets	7,909
Total Net Assets - Beginning (Restated)	<u>20,653</u>
Total Net Assets - Ending	<u><u>\$ 28,562</u></u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

SIMPSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 100,058
Cost Of Sales	(63,711)
Sales Tax	(3,279)
Commissary Wages	(578)
Adult Education	(750)
Inmate Refunds	(2,949)
Educational and Recreational	(18,604)
Miscellaneous	(2,278)
Net Cash Provided By Operating Activities	<u>7,909</u>
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	12,135
Inmate Refunds On Accounts	(12,135)
Net Cash Used By Noncapital Financing Activities	<u></u>
Net Increase In Cash And Cash Equivalents	7,909
Cash And Cash Equivalents - July 1, 2006 (Restate	<u>20,653</u>
Cash And Cash Equivalents - June 30, 2007	<u><u>28,562</u></u>
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities	
Operating Income	<u>7,909</u>
Total Cash Provided By Operating Activities	<u><u>\$ 7,909</u></u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

SIMPSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	<u>Agency Fund</u>
	<u>Inmate Account</u>
Assets	
Current Assets:	
Cash And Cash Equivalents	\$ 8,714
Total Assets	<u>8,714</u>
Liabilities	
Amounts Held In Custody For Others	<u>8,714</u>
Total Liabilities	<u>8,714</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Simpson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

Simpson County Justice Center Corporation

Simpson County Justice Center Corporation (Corporation) is a legally separate entity established for the purpose of construction of the Simpson County Judicial Center and the related long-term debt service. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Simpson County Justice Center Corporation. Financial information for the Simpson County Justice Center Corporation is blended within Simpson County's financial statements. All activities of the Corporation are accounted for within a non-major (debt service) fund.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Unit

The financial data of the Simpson County Tourism Commission is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government.

Simpson County Tourism Commission

Simpson County Fiscal Court established the Simpson County Tourism Commission (Commission) pursuant to KRS 91A.350(2) for the purpose of promoting tourism and convention activity in Simpson County. The Commission is composed of seven members appointed by the Simpson County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties. Two members are appointed at-large by the County Judge/Executive. The Commission's governing body is substantially different from the Fiscal Court. However, the Commission is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. The Commission's major source of revenue is transient room tax. On March 31, 2002, the Fiscal Court enacted an ordinance imposing a transient room tax.

The Fiscal Court currently collects "3% of the rent for every occupancy of a suite, room or rooms, charged by all persons, companies, corporations or other like similar persons, groups or organizations doing business as motor courts, motels, hotels, inns, or like or similar accommodations businesses." The Commission is to annually submit a request for funds to the Fiscal Court. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Commission is presented discretely.

Audited financial statements for the Simpson County Tourism Commission, a discretely presented component unit, may be requested by contacting the Simpson County Tourism Commission, P.O. Box 737, Franklin, Kentucky, 42135.

C. Simpson County Elected Officials

Kentucky law provides for election of the below officials from the geographic area constituting Simpson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the Fiscal Court. The primary sources of revenue for this fund are reimbursements from the state government and transfers from the General Fund. The Department for Local Government Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, 911 Dispatch Fund, and Justice Center Corporation Fund.

In the prior year, the Capital Projects Fund and Debt Service Fund were presented as major funds based on management's decision and GASB reporting requirements. In the current year, these funds have been combined into the Justice Center Corporation Fund. This fund did not meet the reporting requirements for major fund designation. It is included in the current year as a non-major fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, and 911 Dispatch Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund

The Justice Center Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payments of long-term debt principal and interest.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise Fund

The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or agency capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Inmate Account Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from jail inmates and remitted for jail canteen expenses, booking fees, or returned to the jail inmate.

Presentation of Component Unit

Detailed presentations of the financial statements for the Simpson County Tourism Commission, a major discretely presented component unit of the Simpson County Fiscal Court, are available from the separately issued financial statements of the Simpson County Tourism Commission.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	30
Buildings and Building Improvements	\$ 5,000	30
Other Equipment	\$ 5,000	15
Vehicles and Equipment	\$ 5,000	7
Infrastructure	\$ 1,500	20

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The State Local Finance Officer does not require formal budgets be adopted for the Justice Center Corporation Fund and the Jail Canteen Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. The primary government's accountability for related organizations does not extend beyond making appointment. Based on these criteria the following are considered related organizations of Simpson County Fiscal Court: Simpson County Water District and Franklin Simpson County Ambulance Service.

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based on these criteria, the following is considered a joint venture of the Simpson County Fiscal Court: Franklin Simpson Parks Board, Inc.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations (Continued)

A jointly governed organization is a regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the following are considered jointly governed organizations of the Simpson County Fiscal Court: Franklin Simpson Industrial Development Authority, Franklin Simpson Planning and Zoning Commission, and Franklin Simpson Planning and Zoning Adjustment Board .

Note 2. Deposits

The primary government and its discretely presented component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the primary government or its discretely presented component unit and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the primary government's or its discretely presented component unit's deposits may not be returned. The primary government and its discretely presented component unit do not have deposit policies for custodial credit risk but rather follow the requirements of KRS 41.240(4). On June 30, 2007, the primary government's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the primary government's deposits in accordance with the security agreement.

Uncollateralized and Uninsured \$82,288

As of June 30, 2007, all deposits of the discretely presented component unit were covered by FDIC or a properly executed collateral security agreement.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity of the primary government for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,102,037	\$ 400,000	\$	\$ 1,502,037
Total Capital Assets Not Being Depreciated	1,102,037	400,000		1,502,037
Capital Assets, Being Depreciated:				
Buildings	14,372,410	140,198		14,512,608
Other Equipment	1,093,214	14,771	(13,125)	1,094,860
Vehicles and Equipment	851,385	56,536	(11,900)	896,021
Infrastructure	1,043,373	357,824		1,401,197
Total Capital Assets Being Depreciated	17,360,382	569,329	(25,025)	17,904,686
Less Accumulated Depreciation For:				
Buildings	(2,443,744)	(314,323)		(2,758,067)
Other Equipment	(372,737)	(70,524)	10,063	(433,198)
Vehicles and Equipment	(440,403)	(92,901)	6,222	(527,082)
Infrastructure	(85,469)	(65,782)		(151,251)
Total Accumulated Depreciation	(3,342,353)	(543,530)	16,285	(3,869,598)
Total Capital Assets, Being Depreciated, Net	14,018,029	25,799	(8,740)	14,035,088
Governmental Activities Capital Assets, Net	<u>\$15,120,066</u>	<u>\$ 425,799</u>	<u>\$ (8,740)</u>	<u>\$15,537,125</u>

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 121,954
Protection to Persons and Property	289,054
General Health and Sanitation	8,467
Recreation and Culture	7,638
Roads, Including Depreciation of General Infrastructure Assets	<u>116,417</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 543,530</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity of the discretely presented component unit for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 74,500	\$	\$	\$ 74,500
Total Capital Assets Not Being Depreciated	74,500			74,500
Capital Assets, Being Depreciated:				
Buildings	171,415			171,415
Other Equipment	16,151	3,053		19,204
Vehicles and Equipment	20,293	1,737		22,030
Total Capital Assets Being Depreciated	207,859	4,790		212,649
Less Accumulated Depreciation For:				
Buildings	(31,426)	(5,714)		(37,140)
Other Equipment	(5,194)	(1,247)		(6,441)
Vehicles and Equipment	(11,989)	(2,940)		(14,929)
Total Accumulated Depreciation	(48,609)	(9,901)		(58,510)
Total Capital Assets, Being Depreciated, Net	159,250	(5,111)		154,139
Capital Assets, Net	<u>\$ 233,750</u>	<u>\$ (5,111)</u>	<u>\$</u>	<u>\$ 228,639</u>

Depreciation expense was charged to functions of the discretely presented major component unit as follows:

Simpson County Tourism Commission	<u>\$ 9,901</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 9,901</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Short-term Debt

A. Kentucky Association of Counties Advance Revenue Program

In July 2006, Simpson County Fiscal Court participated in the Kentucky Association of Counties Advance Revenue Program by issuing notes for the General Fund and Road Fund in the amounts of \$273,850 and \$158,750, with principal being due in January 2007. While the Fiscal Court did not use borrowed funds in order to meet current General Fund or Road Fund expenditures, they were able to reinvest the funds and receive net interest earnings of \$3,507 and \$1,085, respectively.

B. Changes In Short-term Liabilities

Short-term liability activity of the primary government for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Kentucky Advanced Revenue Program	\$	\$ 432,600	\$ 432,600	\$	\$
Governmental Activities Short-term Liabilities	<u>\$ 0</u>	<u>\$ 432,600</u>	<u>\$ 432,600</u>	<u>\$ 0</u>	<u>\$ 0</u>

Note 5. Long-term Debt

A. Revenue Bonds, Series 1987

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$991,772 of revenue bonds at various interest rates, of which the county has agreed to pay \$401,741 principal and a proportional share of interest on the issue. The maturity date of the revenue bonds is October 1, 2014. The principal balance of the revenue bonds as of June 30, 2007 was \$172,097. Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2008	\$ 17,065	\$ 10,674
2009	18,177	9,525
2010	19,362	8,301
2011	20,625	6,998
2012	21,970	5,608
2013	23,404	4,127
2014	24,933	2,549
2015	26,561	867
Totals	<u>\$ 172,097</u>	<u>\$ 48,649</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long-term Debt (Continued)

B. General Obligation Bonds, Series 2000

Simpson County Fiscal Court issued general obligation bonds, series 2000, dated September 1, 2000, for the purpose of the detention facility renovation and addition. On September 15, 2000, \$4,730,000 of general obligation bonds was issued at various interest rates. The maturity date of the general obligation bonds is September 1, 2021. The principal balance of these general obligation bonds as of June 30, 2007 was \$3,950,000. Annual debt service requirements to maturity for the general obligation bonds are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2008	\$ 180,000	\$ 195,425
2009	190,000	186,175
2010	200,000	176,425
2011	210,000	166,175
2012	220,000	155,425
2013-2017	1,280,000	596,625
2018-2022	<u>1,670,000</u>	<u>225,465</u>
Totals	<u>\$ 3,950,000</u>	<u>\$ 1,701,715</u>

C. Mortgage Revenue Bonds, Series 2002

Simpson County Justice Center Corporation, an agency and instrumentality of the Simpson County Fiscal Court created on March 20, 2001, issued Simpson County Justice Center Corporation First Mortgage Revenue Bonds (bonds), Series 2002, on July 1, 2002, for the purpose of acquisition, construction, installation, and equipping of the Simpson County Judicial Center. On July 10, 2002, \$7,460,000 of bonds was issued at various interest rates with accrued interest of \$7,778. The Corporation has entered into an agreement to lease the Simpson County Judicial Center to the Simpson County Fiscal Court for the amount of the bond payments. The Simpson County Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Simpson County Judicial Center. The maturity date of the mortgage revenue bonds is March 1, 2023. The principal balance of these mortgage revenue bonds as of June 30, 2007 was \$6,430,000. Annual debt service requirements to maturity for the mortgage revenue bonds are as follows:

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long-term Debt (Continued)

C. Mortgage Revenue Bonds, Series 2002 (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2008	\$ 280,000	\$ 283,753
2009	295,000	274,302
2010	305,000	263,683
2011	320,000	252,092
2012	335,000	239,612
2013-2017	1,910,000	977,288
2018-2022	2,425,000	497,866
2023	<u>560,000</u>	<u>27,300</u>
Totals	<u>\$ 6,430,000</u>	<u>\$ 2,815,896</u>

D. Fire Truck

On February 25, 2000, the Simpson County Fiscal Court entered into an agreement with Emergency One, Inc. The agreement was for the purchase of a fire truck. The principal was \$150,985 at various interest rates for a period of 10 years, interest and principal paid annually. On September 26, 2003, the Fiscal Court entered into an agreement for additional principal of \$122,638, which extended the agreement for three years. The maturity date of the obligation is February 25, 2013. The principal balance of the obligation at June 30, 2007 was \$89,819. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2008	\$ 13,222	\$ 4,446
2009	13,876	3,792
2010	14,563	3,105
2011	15,284	2,384
2012	16,040	1,627
2013	<u>16,834</u>	<u>833</u>
Totals	<u>\$ 89,819</u>	<u>\$ 16,187</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long-term Debt (Continued)

E. Fire Substations

On November 2, 2001, the Simpson County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the construction of fire substations. The principal was \$250,000 at various interest rates for a period of 15 years, interest paid monthly and principal paid annually. The maturity date of the obligation is November 20, 2016. The principal balance of the obligation at June 30, 2007 was \$172,853. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest and Fees</u>
2008	\$ 14,801	\$ 7,903
2009	15,545	5,605
2010	16,327	5,027
2011	17,148	4,599
2012	18,011	3,784
2013-2017	<u>91,021</u>	<u>8,218</u>
Totals	<u>\$ 172,853</u>	<u>\$ 35,136</u>

F. Detention Facility Renovation and Addition

On April 18, 2002, the Simpson County Fiscal Court entered into an agreement with the Kentucky Area Development Districts Financing Trust. The agreement was for the purpose of additional financing of the detention facility renovation and addition. The principal was \$500,000 at variable interest rates for a period of 21 years, interest paid semi-annually and principal paid annually. The maturity date of the obligation is May 20, 2023. The principal balance of the obligation at June 30, 2007 was \$435,000. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest and Fees</u>
2008	\$ 20,000	\$ 23,260
2009	20,000	22,360
2010	20,000	21,440
2011	20,000	20,480
2012	20,000	19,500
2013-2017	130,000	79,110
2018-2022	165,000	39,677
2023	<u>40,000</u>	<u>2,220</u>
Totals	<u>\$ 435,000</u>	<u>\$ 228,047</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long-term Debt (Continued)

G. Jail Computer System and Software

On October 6, 2003, the Simpson County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a new jail computer and software system. The principal was \$50,000 at 2.7 percent interest for a period of five years, interest paid monthly and principal paid annually. The maturity date of the obligation is January 20, 2008. The principal balance of the obligation at June 30, 2007 was \$11,000. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest and Fees</u>
2008	\$ 11,000	\$ 226

H. Dump Truck

On December 6, 2005, the Simpson County Fiscal Court entered in an agreement with Farmers Bank and Capital Trust Company in Franklin, Kentucky. The agreement was for the purchase of a new dump truck to be used by the road department. The principal was \$95,548 at 8 percent interest for a period of four years; interest is paid monthly out of a residual account and principal paid annually. The maturity date of the obligation is December 6, 2008. The principal balance of the obligation at June 30, 2007 was \$47,774. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2008	\$ 23,887	\$ 1,975
2009	23,887	677
	<u>\$ 47,774</u>	<u>\$ 2,652</u>

I. Gravel Road Project

On October 28, 2005, the Simpson County Fiscal Court entered in an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the paving of several county roads. The principal was \$450,000 at 3.95 percent interest for a period of ten years, interest is paid monthly and principal is paid annually. The maturity date of the obligation is July 20, 2015. The principal balance of the obligation at June 30, 2007 was \$415,000. Annual debt service requirements to maturity are as follows:

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Long-term Debt (Continued)

I. Gravel Road Project (Continued)

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest and Fees</u>
2008	\$ 40,000	\$ 17,935
2009	40,000	16,273
2010	40,000	14,386
2011	45,000	12,277
2012	45,000	10,169
2013-2017	<u>205,000</u>	<u>16,413</u>
	<u>\$ 415,000</u>	<u>\$ 87,453</u>

J. Changes in Long-term Liabilities

Long-term liability activity of the primary government for the year ended June 30, 2007, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 4,120,000	\$	\$ 170,000	\$ 3,950,000	\$ 180,000
Revenue Bonds	6,888,116		286,019	6,602,097	297,065
Financing Obligations	<u>1,287,023</u>		<u>115,577</u>	<u>1,171,446</u>	<u>122,910</u>
Governmental Activities					
Long-term Liabilities	<u>\$12,295,139</u>	<u>\$ 0</u>	<u>\$ 571,596</u>	<u>\$11,723,543</u>	<u>\$ 599,975</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2007, Simpson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Prior Period Adjustment

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
A. Net Assets		
Beginning Balance - Net Assets	\$ 4,115,945	\$ 20,714
Adjustments:		
Capital Assets (Net of Accumulated Depreciation)		
Previously Included By Error	(209,078)	
Correction to Accumulated Depreciation		
For Calculation Error	254,064	
Prior Year Omitted Expense		(61)
Total Restated Beginning Balance - Net Assets	<u>\$ 4,160,931</u>	<u>\$ 20,653</u>
	<u>Jail Canteen Fund</u>	
B. Fund Balance		
Fund Balance - Beginning	\$ 20,714	
Adjustments:		
Prior Year Omitted Expense	(61)	
Beginning Fund Balance (Restated)	<u>\$ 20,653</u>	

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SIMPSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

SIMPSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

GENERAL FUND				
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 3,112,500	\$ 3,112,500	\$ 3,300,860	\$ 188,360
In Lieu Tax Payments	29,000	29,000	30,313	1,313
Excess Fees	55,720	55,720	54,045	(1,675)
Licenses and Permits	137,075	137,075	177,422	40,347
Intergovernmental Revenue	1,504,944	2,169,242	1,506,123	(663,119)
Charges for Services	3,500	3,500	6,603	3,103
Miscellaneous	152,500	152,500	151,375	(1,125)
Interest	24,000	24,000	16,855	(7,145)
Total Revenues	<u>5,019,239</u>	<u>5,683,537</u>	<u>5,243,596</u>	<u>(439,941)</u>
EXPENDITURES				
General Government	1,606,088	2,330,468	1,807,342	523,126
Protection to Persons and Property	399,089	455,821	405,638	50,183
General Health and Sanitation	325,542	344,318	343,353	965
Social Services	440,700	439,569	424,569	15,000
Recreation and Culture	437,907	576,907	565,143	11,764
Debt Service	43,702	40,768	40,691	77
Capital Projects	270,000	360,399	230,220	130,179
Administration	796,211	788,507	786,264	2,243
Total Expenditures	<u>4,319,239</u>	<u>5,336,757</u>	<u>4,603,220</u>	<u>733,537</u>
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	<u>700,000</u>	<u>346,780</u>	<u>640,376</u>	<u>293,596</u>
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(850,000)</u>	<u>(1,050,000)</u>	<u>(908,305)</u>	<u>141,695</u>
Total Other Financing Sources (Uses)	<u>(850,000)</u>	<u>(1,050,000)</u>	<u>(908,305)</u>	<u>141,695</u>
Net Changes in Fund Balances	(150,000)	(703,220)	(267,929)	435,291
Fund Balances - Beginning	<u>150,000</u>	<u>703,220</u>	<u>838,900</u>	<u>135,680</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 570,971</u>	<u>\$ 570,971</u>

SIMPSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,090,820	\$ 1,151,820	\$ 1,177,618	\$ 25,798
Miscellaneous	1,000	1,000		(1,000)
Interest	2,300	2,300	2,404	104
Total Revenues	<u>1,094,120</u>	<u>1,155,120</u>	<u>1,180,022</u>	<u>24,902</u>
EXPENDITURES				
Transportation Facilities and Service	5,900	5,900	5,560	340
Roads	574,420	602,370	559,698	42,672
Debt Service	78,250	78,277	78,164	113
Capital Projects	314,950	375,950	291,267	84,683
Administration	120,600	102,623	87,484	15,139
Total Expenditures	<u>1,094,120</u>	<u>1,165,120</u>	<u>1,022,173</u>	<u>142,947</u>
Excess (Deficiency) of Revenues				
Other				
Financing Sources (Uses)		(10,000)	157,849	167,849
Net Changes in Fund Balances		(10,000)	157,849	167,849
Fund Balances - Beginning		10,000	324,936	314,936
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 482,785</u>	<u>\$ 482,785</u>

SIMPSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,647,035	\$ 1,647,035	\$ 1,422,063	\$ (224,972)
Charges for Services	61,000	61,000	52,072	(8,928)
Miscellaneous	87,000	87,000	81,704	(5,296)
Interest	500	500	877	377
Total Revenues	<u>1,795,535</u>	<u>1,795,535</u>	<u>1,556,716</u>	<u>(238,819)</u>
EXPENDITURES				
Protection to Persons and Property	1,575,300	1,584,395	1,498,586	85,809
Debt Service	458,800	459,055	456,666	2,389
Administration	411,435	602,085	357,581	244,504
Total Expenditures	<u>2,445,535</u>	<u>2,645,535</u>	<u>2,312,833</u>	<u>332,702</u>
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	<u>(650,000)</u>	<u>(850,000)</u>	<u>(756,117)</u>	<u>93,883</u>
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>650,000</u>	<u>850,000</u>	<u>790,305</u>	<u>59,695</u>
Total Other Financing Sources (Uses)	<u>650,000</u>	<u>850,000</u>	<u>790,305</u>	<u>(59,695)</u>
Net Changes in Fund Balances			34,188	34,188
Fund Balances - Beginning			<u>11,163</u>	<u>11,163</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45,351</u>	<u>\$ 45,351</u>

SIMPSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Road Fund Reconciliation

The Road Fund Budgetary Comparison Schedule differs from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds for the following reason:

Reconciliation of Road Fund

Total Expenditures - Budgetary Basis	\$ 1,022,173
Plus: Expenditures for Debt Service Made From	
Cash Balance of Dump Truck Financing Obligation	3,200
Total Expenditures - Modified Cash Basis	<u>\$ 1,025,373</u>
 Fund Balance - Beginning	 \$ 324,936
Plus: Cash Balance of Dump Truck Financing Obligation	<u>5,852</u>
 Fund Balance - Ending	 \$ 482,785
Plus: Cash Balance of Dump Truck Financing Obligation	<u>2,652</u>
Total Fund Balance - Ending	<u>\$ 485,437</u>

Note 3. Jail Fund Reconciliation

The Jail Fund Budgetary Comparison Schedule differs from the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds for the following reason:

Reconciliation of Jail Fund

Total Revenues - Budgetary Basis	\$ 1,556,716
Plus: Telephone Commission Signing Bonus	<u>15,000</u>
Total Revenues - Modified Cash Basis	<u>\$ 1,571,716</u>
 Fund Balance - Ending	 \$ 45,351
Plus: Balance of Telephone Commission Signing Bonus	<u>15,000</u>
Total Fund Balance - Ending	<u>\$ 60,351</u>

**SIMPSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

SIMPSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	Local Government Economic Assistance Fund	911 Dispatch Fund	Justice Center Corporation Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 83,492	\$ 4,710	\$ 17,152	\$ 105,354
Total Assets	<u>83,492</u>	<u>4,710</u>	<u>17,152</u>	<u>105,354</u>
FUND BALANCES				
Reserved for:				
Encumbrances		3,195		3,195
Unreserved:				
Special Revenue Funds	83,492	1,515		85,007
Debt Service Fund			17,152	17,152
Total Fund Balances	<u>\$ 83,492</u>	<u>\$ 4,710</u>	<u>\$ 17,152</u>	<u>\$ 105,354</u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

SIMPSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Local Government Economic Assistance Fund	911 Dispatch Fund	Justice Center Corporation Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$ 164,349	\$	\$ 164,349
Intergovernmental	45,645	96,048	563,844	705,537
Charges for Services		78,632		78,632
Miscellaneous			1,075	1,075
Interest	365			365
Total Revenues	<u>46,010</u>	<u>339,029</u>	<u>564,919</u>	<u>949,958</u>
EXPENDITURES				
General Government	40,000			40,000
Protection to Persons and Property		360,286		360,286
Roads	50,000			50,000
Debt Service			564,281	564,281
Administration		103,190		103,190
Total Expenditures	<u>90,000</u>	<u>463,476</u>	<u>564,281</u>	<u>1,117,757</u>
Excess (Deficiency) of Revenues				
Expenditures Before Other				
Financing Sources (Uses)	<u>(43,990)</u>	<u>(124,447)</u>	<u>638</u>	<u>(167,799)</u>
Other Financing Sources (Uses)				
Transfers In		118,000		118,000
Total Other Financing Sources (Uses)		<u>118,000</u>		<u>118,000</u>
Net Change in Fund Balances	(43,990)	(6,447)	638	(49,799)
Fund Balances - Beginning	127,482	11,157	16,514	155,153
Fund Balances - Ending	<u>\$ 83,492</u>	<u>\$ 4,710</u>	<u>\$ 17,152</u>	<u>\$ 105,354</u>

The accompanying notes are an integral part of the financial statements.

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SIMPSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2007

SIMPSON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2007

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>		
Passed-Through Kentucky State Police: State and Community Highway Safety Grants - Governor's Highway Safety Program (CFDA #20.600)	OP-07-28	\$ 1,402
Passed-Through Kentucky Transportation Cabinet: Highway Planning and Construction - Transportation Equity Act for the 21st Century - Sanford-Duncan Inn and Tourist Welcome Center (CFDA #20.205)	C-01087908	<u>59</u>
Total U.S. Department of Transportation		<u>1,461</u>
<u>U.S. Department of Homeland Security</u>		
Passed-Through Kentucky Department of Military Affairs: Emergency Management Performance Grant - Director's Salary and Expenses (CFDA #97.042)	N/A	9,691
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through Kentucky Department for Local Government: Community Development Block Grant - State's Program - Franklin Simpson Boys and Girls Club (CFDA #14.228)	04-031	410,000 ***
<u>U.S. Department of Justice</u>		
Public Safety Partnership and Community Policing Grants - Technology Initiative Grant Program (CFDA #16.710)	2005CKWX0269	<u>85,258</u>
Total Expenditures of Federal Awards		<u>\$ 506,410</u>

*** Tested as Major Program

SIMPSON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2007

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Simpson County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Jim Henderson, Simpson County Judge/Executive
Members of the Simpson County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Simpson County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon date July 18, 2008. We did not audit the financial statements of the Simpson County Tourism Commission, a discretely presented component unit of the Simpson County Fiscal Court. Those financial statements were audited by other auditors whose report has been furnished to us. Simpson County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Simpson County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Simpson County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Simpson County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

2007-1 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Simpson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Simpson County Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 18, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Henderson, Simpson County Judge/Executive
Members of the Simpson County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Simpson County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. Simpson County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Simpson County's management. Our responsibility is to express an opinion on Simpson County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Simpson County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Simpson County's compliance with those requirements.

In our opinion, Simpson County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-2.

Internal Control Over Compliance

The management of Simpson County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Simpson County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Simpson County's internal control over compliance.



Report On Compliance with Requirements Applicable To Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program, will not be prevented or detected by the entity's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-3 to be a material weakness.

The Simpson County Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

July 18, 2008

**SIMPSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2007

**SIMPSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Simpson County, Kentucky.
2. No instances of noncompliance material to the financial statements of Simpson County were disclosed during the audit.
3. One significant deficiency relating to the audit of the financial statements is reported in the Independent Auditor's Report and is also considered a material weakness.
4. One significant deficiency relating to the audit of the major federal awards program is reported in the Independent Auditor's Report and is also considered a material weakness.
5. The auditor's report on compliance for the audit of the major federal awards program for Simpson County expresses an unqualified opinion.
6. There is one audit finding relative to the major federal awards program for Simpson County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant – State's Program (CFDA# 14.228)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Simpson County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS

2007-1 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll

The County has a lack of segregation of duties over payroll. The County Treasurer takes care of the payroll function. We recommend the following segregation of duties or compensating controls be implemented over payroll to offset this internal control weakness:

- The County Judge/Executive or designee should compare payroll checks to individual earnings records to verify accuracy.
- The County Judge/Executive should require the finance officer or administrative assistant to maintain time records.
- An independent person should open bank statements and review them for unusual items.
- The independent person should then sign off on the bank statement to verify completion.
- An independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy.
- The independent person should then sign off on the bank reconciliations to verify completion.

SIMPSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2007
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS
(Continued)

2007-1 The Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
(Continued)

County Judge/Executive Jim Henderson's Response: I intend to implement all of the suggestions listed in finding #1 [2007-1]. I will have my finance officer take over the responsibilities for keeping time records immediately upon her return from maternity leave this fall. I will begin the transition of information even sooner. I will have my executive secretary log in all receipts and bank statements and keep a record to compare against the record kept by the county treasurer. I will have my finance officer complete the bank reconciliation and review the treasurer's reconciliation for accuracy.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

2007-2 The Fiscal Court Failed To Adhere To The Uniform Relocation Assistance And Real Property Acquisition Policies Act Of 1970, As Amended

During testing of federal expenditures auditor determined that one of the properties acquired for the project was occupied at the time of the first acquisition, and that both the initial acquisition and subsequent transfer of title to the County were "for the project" in which federal financial assistance was anticipated. Because the tenant was not offered the opportunity to remain at the site, but was informed instead that the site was to be used for a federally assisted project, her move was causal to the project and, therefore, subject to the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (URA), and possibly to section 104(d) of the Housing and Community Development Act of 1974 (Section 104(d)).

The following non-compliances occurred as a result of the actions above:

- a. The tenant was not issued a General Information Notice in a timely manner.
- b. The required advisory services were not adequate.
- c. The tenant was not issued a notice of eligibility.
- d. The tenant was not offered a comparable replacement dwelling to which he/she could move.
- e. The County failed to inform the tenant of the rent used for establishing the upper limit of the replacement housing payment and the basis of the County's determination so that the tenant is aware of the maximum replacement housing payment for which he or she may qualify.
- f. The County failed to demonstrate whether or not there is an increase in housing costs at the replacement unit.
- g. The County failed to ensure the tenant was provided the option of selecting actual move assistance under either 49 CR 24.301, or a fixed move payment under 49 CFR 24.302. The County failed to document delivery of the URA-required relocation notices.
- h. The County failed to maintain adequate records of its displacement activities in sufficient detail to demonstrate compliance with the regulations applicable to the displacement of this tenant.
- i. The County failed to ensure that the purpose of the URA was carried out in respect to the displacement of this residential tenant.
- j. The County failed to determine if the tenant was entitled to assistance under section 104(d), and if so, to make that assistance available.

SIMPSON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2007
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (Continued)

2007-2 The Fiscal Court Failed To Adhere To The Uniform Relocation Assistance And Real Property Acquisition Policies Act Of 1970, As Amended
 (Continued)

We recommend that the Fiscal Court implement a corrective action plan and certify that it will comply with the URA with respect to the displacement of residential tenants in all future projects.

County Judge Executive Jim Henderson's Response: I am not in complete agreement with this finding. The property in question was not in play during the CDBG application process, nor was it contemplated by the County that this property would be acquired or be owned by the County. It is not even clear that anyone would have thought that it would ultimately be owned and/or controlled by the Boys & Girls Club. Mr. Johnson pursued this property without the County's advice or input and most certainly without any intended dislocation or disruption to any resident. I know Mr. Johnson personally. He is a fine Christian man and only acted in good faith. I plan to do my best to remedy this problem for the County through a corrective action plan, but I am reliant upon the assistance of the Barren River Area Development District staff and the Department for Local Government staff to insure that we implement this plan properly.

2007-3 The Fiscal Court Failed To Implement Working Internal Controls Over Relocation Assistance And Real Property Acquisition

During testing of internal controls over federal expenditures auditor noted that the Fiscal Court had implemented a Guideform Residential Antidisplacement and Relocation Plan. The Fiscal Court also contracted with the Barren River Area Development District (BRADD) for administration of the grant. Auditor was unable to view any internal controls performed by BRADD relating to Relocation Assistance And Real Property Acquisition. The lack of working internal controls over Relocation Assistance And Real Property Acquisition led to non-compliances with OMB A-133. <See comment 2007-2 above>. We recommend the Fiscal Court implement working internal controls over Relocation Assistance And Real Property Acquisition and all other OMB A-133 compliance requirements.

County Judge Executive Jim Henderson's Response: My response to #2 [2007-2] should address this finding.

Auditor's Reply: Mr. Johnson should be commended for his public service. However, even if Federal financial assistance was not anticipated, projects that receive HUD funding at any stage, whether it is planned or not, triggers the Uniform Relocation Assistance and Real Property Acquisition Policies Act.

D. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None.

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

SIMPSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
SIMPSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Simpson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

